Stelly (HB 2094) **Act No. 379**

Relative to the District Attorneys' Retirement System (DARS).

Prudent Man Rule

Existing law (R.S. 11:263), which is applicable to all state and statewide public retirement systems, including DARS, provides the "prudent man rule" which requires each board of trustees acting collectively, to act with the care, skill, prudence, and diligence under the circumstances prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Existing law, under the "prudent man rule", requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation, but in the context of the trust portfolio, and as part of an overall investment strategy, which shall include an asset allocation study and plan for implementation thereof, incorporating risk and return objectives reasonably suitable to that trust.

Equity Limitation

Existing law (R.S. 11:263(E)), which is applicable to all statewide public retirement systems, including DARS, provides that, notwithstanding the prudent man rule, no governing authority of any system or fund shall invest more than 55% of the total portfolio in equities.

Existing law, applicable only to the Louisiana State Employees' Retirement System, the Teachers' Retirement System, and the Louisiana School Employees' Retirement System, provides that, notwithstanding the 55% equity limit, the covered systems are authorized to invest up to 65% of the system's total portfolio in equity securities.

Mandatory Indexing

Existing law, applicable to the Louisiana State Employees' Retirement System, Teachers' Retirement System of Louisiana, and the Louisiana School Employees' Retirement System, but not DARS, provides that each such system shall invest an amount equal to at least 10% of the system's total equity portfolio in one or more index funds which seek to replicate the performance of the chosen index or indices.

Existing law provides that any covered retirement system may divest its indexed funds if the S&P 500 Composite Index declines by more than 10% during the 12-month period immediately preceding such divestment and further requires that any such governing authority furnish written notice of such divestment to the House Retirement Committee and the Senate Retirement Committee within 10 days following the governing authority's decision to divest. Existing law provides that if any covered retirement system divests its indexed funds, and if the S&P 500 Composite Index increases by more than 10%, as compared to the date of divestment, then the system shall reindex equity assets.

Existing law defines the term "equity" as ownership of a corporation represented by shares that are publicly traded on a recognized exchange, including the National Association of Securities Dealers Automated Quotation (NASDAQ).

DARS Pilot Program

New law creates a temporary pilot program for the purpose of obtaining evidence. New law authorizes DARS, which is a fully funded, statewide public retirement system, to prudently exceed the 55% equity limit which is applicable to all other statewide systems.

New law provides that the board of trustees shall cause to be invested an amount equal to at least 10% of DARS' total equity portfolio in one or more index funds which seek to replicate the performance of the chosen index or indices.

New law authorizes the board of trustees to divest the system of its indexed funds if the S&P 500 Composite Index declines by more than 10% during the 12-month period immediately preceding such divestment, provided that the board furnishes written notice of such divestment to the House Retirement Committee and the Senate Retirement Committee within 10 days following the board's decision to divest. New law provides that if the board divests the system of its indexed funds, and if the S&P 500 Composite Index increases by more than 10%, as compared to the index on the date that the board took official action causing such divestment, then the board shall reindex equity assets.

New law provides that the mandatory indexing strategy may be phased in over a period of time, provided that the indexing strategy shall be fully implemented on or before July 1, 2000.

New law defines the term "equity" as ownership of a corporation represented by shares that are publicly traded on a recognized exchange, including the National Association of Securities Dealers Automated Quotation (NASDAQ).

New law provides that the mandatory indexing strategy shall be implemented without regard to the provisions authorizing increased equity investments.

Increased Equity Authority

New law provides that, notwithstanding the 55% equity limitation applicable to all other statewide retirement systems, the board of trustees may invest up to 65% of the system's total portfolio in equity securities.

Sunset Provision

New law provides that on and after July 1, 2003, the board of trustees shall no longer be authorized to invest up to 65% of the system's total portfolio in equity securities, and the board shall have from July 1, 2003 to July 1, 2004, to reallocate such assets so as to bring the system's portfolio into compliance with the 55% equity limitation.

New law requires the DARS board, upon request of either the House Retirement Committee or the Senate Retirement Committee, to furnish a comprehensive written report to the requesting entity setting forth the actuarial and fiscal experience related to this pilot program.

Effective July 1, 1999.

(Adds R.S. 11:1671.1)